American Iron and Steel Institute

1140 Connecticut Avenue, NW
Suite 705
Washington, DC 20036
Phone: 202.452.7146
Fax: 202.452.1039

Ward J. "Tim" Timken
Chairman

Andrew G. Sharkey, III
President and Chief Executive Officer

June 15, 2007

The Honorable John D. Dingell, Jr.
Chairman - Committee on Energy and Commerce
United States House of Representatives
2125 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Rick Boucher
Chairman - Energy and Air Quality Subcommittee
Committee on Energy and Commerce
United States House of Representatives
2125 Rayburn House Office Building
Washington, D.C. 20515

Gentlemen:

On behalf of the members of the American Iron and Steel Institute, it is our pleasure to transmit to you our response to your questionnaire regarding "portfolio standards" proposals.

We want to especially thank you for the opportunity to present our views to the Committee in such a timely manner. The questions posed by the Committee received considerable attention by our members, as well as the AISI staff.

While the steel industry does not support a renewable portfolio standard, we recognize the enormous difficulty that faces the Committee as you seek to develop responsible legislation in this area. We have sought to address your questions with the importance and thoughtfulness that the issue requires. As the Committee moves forward, please rest assured that you will have the full cooperation of our industry as a technical resource, to be called on at any time.

Thank you again for all the courtesies that you have shown us. We look forward to working together not only on this issue, but on the larger climate issue in general.

Sincerely,

Ward J. "Tim" Timken
Chairman

Andrew G. Sharkey, III
President & Chief Executive Officer

Cc:

The Honorable Joe L. Barton
Ranking Minority Member - Committee on Energy and Commerce
United States House of Representatives
2322A Rayburn House Office Building
Washington, D.C. 20515

The Honorable Dennis Hastert
Ranking Minority Member - Energy and Air Quality Subcommittee
Committee on Energy and Commerce
United States House of Representatives
2322A Rayburn House Office Building
Washington, D.C. 20515

AISI Response to the Request of
House Energy and Commerce Committee
Chairman John Dingell's Request
for Views on Portfolio Standards Proposals

1. Purpose of Portfolio Standards Proposals

a. Do you believe that adopting one or more Federal "portfolio-standard" requirements applied to sources of retail electricity, mandating that a given percentage of the power sold at retail come from particular sources, is an advisable Federal policy? Why or why not?

No. A federal fuels portfolio standard for electricity producers is inappropriate because of regional differences in resources and the disruptive economic side effects that will occur as certain existing bio sources are diverted from their current uses in order to satisfy renewable fuels portfolio requirements.

Electric power producers in some parts of the country may easily meet a given standard, whereas others would have to import the power from other areas at a cost premium to achieve that standard. Further, mandates for renewables, depending on how they are defined, are likely to raise the cost of power for all consumers and may disadvantage industrial users in particular. States are already dealing with this issue in ways that are deemed appropriate for their region, and they should be allowed to continue with those efforts unencumbered by a national standard.

The federal goal should be to promote all low carbon emitting technologies, including recycled or recovered energy from manufacturing processes, waste heat recovery, demand- and price-responsive load shedding, wind, nuclear, geothermal, or whatever other technologies are economic. Government policy should promote technological innovation that is cleaner and more efficient, not simply subsidize chosen technologies to the exclusion of other approaches that may not be specifically identified as renewables.

For example, many industries currently use bio materials to satisfy manufacturing needs and rely on animal and vegetable fats as feedstock or processing materials. Renewable fuel portfolio requirements will force manufacturers to compete with energy company subsidies (e.g., biodiesel tax credits) for basic materials. Diverting corn and soy beans from the food chain to alternative fuel production will increase prices of both foodstuffs and energy. Increasing fuel applications of wood pulp may increase the cost of pulp and paper products while displacing some existing alternative fuel projects at industrial or electricity generating facilities. Some steel companies rely on soy-based, white grease in their rolling and pickling

operations. Imposing portfolio standards on utilities will distort competition for many of these raw materials as well as possibly force raw material substitution or technology changes that may impair product quality and operating procedures.

Congress must anticipate and expect severe, unintended economic consequences to result from the direct market intervention involved with a mandatory fuels portfolio standard.

b. Is it appropriate for Government to impose generation-source conditions or energy savings requirements on load-serving utilities in order to serve public-policy purposes such as promotion of renewable energy production, energy-efficiency, and reduction of carbon emissions? Why or why not?

It may be appropriate for Government to take such action but Government must justify those actions. For example, there appears to be no justification for excluding hydropower from the definition of renewable power? Some consideration should also be given to nuclear power, particularly if one of the drivers for imposing a renewable standard is reduction of greenhouse gases. Moreover, load shedding or energy efficiency measures should receive the same attention as the addition of cleaner energy sources.

c. If you favor such a policy, how would you define its specific purpose?

We do not favor such a policy.

d. If Congress were to adopt an economy-wide policy mandating reductions in emissions of greenhouse gases, including the electricity industry, would such a portfolio standard policy remain necessary or advisable?

Depending on the definition of a renewable, the need for a federal standard following the adoption of a mandated greenhouse gas reduction requirement is unlikely. If the renewable definition includes all types of low-carbon fuels, the two programs could be complementary.

e. What analysis has been done of any portfolio standards requirement you endorse to demonstrate:

i. Its economic costs to consumers, nationally, and in various regions, in electricity rates?
ii. Its benefits in greenhouse gas emission reductions?
iii. Its implications for electricity reliability, security, and grid management?
iv. Its implications for jobs and economic development?
v. Its implications for utility capital investment?
vi. Other relevant factors

We do not endorse portfolio standards and consequently have no response to these questions

2. ***Purpose of Portfolio Standards Proposals***

a. What is the principle that should determine inclusion or exclusion of any energy source from an adopted portfolio standard? (i.e., excludes all fossil-fired generation, includes all generation that emits no GHG, excludes all generation, below given energy-conversion efficiency, etc.)

We do not favor a required portfolio. However, if one is enacted, and one of the purposes of the program is to reduce greenhouse gas emissions, all low carbon fuels or energy sources should be included. Further, energy efficiency measures or demand reduction programs to reduce the consumption of fossil fuels should be recognized.

b. What generation sources for retail electricity supplies (including efficiency offsets) should be included and should be excluded from any mandatory portfolio requirement that is adopted? Please provide your reasons for excluding any sources.

See the answer to question 2a.

c. To the extent that multiple renewable energy sources and efficiency or other sources are eligible for inclusion, should any tiers among them or separate sub-requirements be adopted?

All low carbon or low greenhouse gas energy sources should be equally valued. The alternative is too complex, subjective, and potentially unfair.

d. Should there be any distinction between existing and new sources of generation eligible for inclusion in the portfolio? If so, what would be the threshold date for eligibility?

No distinction is necessary.

e. Would the electricity equivalent of useful thermal energy from eligible sources be credited against the requirement? Why or why not?

If useful thermal energy replaces other energy resources or fuels that generate greenhouse gases, yes.

f. To the extent energy efficiency is included:

i. How would the required savings be measured and verified?

A kilowatt saved is a renewable kilowatt earned. The retail provider can measure and verify the equivalent reduction.

ii. Against what base consumption period (historic or projected)?

The baseline should be tied to an historic level of equivalent production for industrial users.

3. Percentage Requirement and Timing

a. What target percentage of total retail power deliveries should be achieved by the required portfolio?

We do not favor a required portfolio. Should one be enacted, however, the appropriate percentage would depend on the definition of renewable sources, which we believe should be broadly defined as discussed above. The appropriate target percentage also depends on the generation capacity basis to which the percentage applies. We believe any renewables goal should apply only to new or replacement capacity. If a percentage goal is applied to a generator's total capacity, including existing and new, virtually all new capacity may need to be from renewable sources, which will be much more difficult to achieve and will likely be excessively costly and unrealistic and may cause the premature retirement of invested capital. It is more plausible to establish a percentage renewables goal for new investments only.

b. What is the target year for reaching the ultimate mandated portfolio percentage?

The timetables for achieving any mandated portfolio percentage should be consistent with greenhouse gas reduction goals, if established, and should recognize capital stock turnover cycles and reflect the need for rational investment schedules. If standards are applied to total generating capacity instead of new capacity only, longer time tables will be required to accomplish the percentage goals.

c. Should there be a straight-line, accelerating, or other form of "ramp-up" to the ultimate target percentage?

We have no opinion.

d. Should there be any "off ramps" or other built-in automatic changes in requirements as a function of contingencies? If so, what should they be? (e.g., price or cost thresholds, contingencies for natural or climate conditions, lack of adequate transmission, etc.)

We have no opinion, except to note that all sectors of the economy should be treated the same so as not to create winners and losers.

4. Relationship to State Portfolio Standards and Utility Regulation

a. Should an adopted Federal portfolio standard set:

i. A minimum standard, allowing States to set or maintain higher targets?

We have no opinion.

ii. A preemptive standard, prohibiting States to set higher or different targets?

We have no opinion.

iii. Merely a mandate for a standard, allowing States to set their own target at any level?

As stated in responses to questions above, the states should be allowed to set a standard if local conditions warrant it.

iv. Merely a given percentage target, allowing States to elect generation or efficiency sources eligible to meet it?

States should be allowed to set their own targets.

v. A standard applying only to States without prior portfolio requirements, grandfathering all prior standard programs?

States should be allowed to set a target if local conditions warrant.

b. Can and should State regulatory agencies be required to pass through the costs of complying with Federal portfolio standards requirements in retail rates?

The increased costs of any standard developed should allow a pass-through to all classes of customers on an equitable basis.

e. Utility Coverage

a. Should any retail sellers of electricity be exempt from the portfolio requirement? (e.g., municipal utilities, rural cooperatives, utilities selling less than a minimum volume of power, unregulated marketers in States with competitive retail markets, etc.)

Coverage should be universal, with no exemptions.

b. Should any standard apply to wholesale power markets or sales.

We have no opinion.

c. Should there be any basis for discretionary exemptions of certain States or utilities?

The potential for discretionary exemptions for any multitude of reasons is the reason there should be no such mandated federal standard.

f. Administration and Enforcement

a. Should a Federal Government entity enforce the requirement and decide on any exemptions?

Because we favor leaving standards up to the states, enforcement and exemptions, if any, should be left to the states.

i. If so, which one? (e.g., the Environmental Protection Agency? The Department of Energy? The Federal Energy Regulatory Commission? A newly created office or entity?)

ii. If not, should enforcement be delegated to the States or to regional transmission or electric-system-operation entities?

b. How should Federal and State enforcement be coordinated in States with their own portfolio requirements?

Enforcement should be left to the states.

c. What penalties should apply for failure of utilities to meet the percentage mandate?

Penalties should be left to the states.

7. Credits and Trading

a. Should tradable credits for qualifying generation be utilized as the mechanism for establishing compliance?

State programs could offer this as an option.

b. Should credit trading be permitted or required on a national basis in order to achieve least-cost compliance with the portfolio standards?

We have no opinion.

c. Should there be a cap on credit values to limit costs?

We have no opinion.

d. As between a utility purchaser and a qualifying power generator, to whom should the portfolio standard credits be initially allocated?

We have no opinion.

e. What relationship, if any, should portfolio standard credits have to other State and Federal credit trading programs for SO2, greenhouse gases, or biofuels?

If one of the objectives of a renewables program is to reduce greenhouse gas emissions, there should be a linkage to market mechanisms associated with those trading programs.

f. What requirements, if any, would there be concerning the length of contracts for qualifying generation and ownership of credit rights?

We have no opinion.